

FISCAL NOTE

SB 3183 - HB 3350

March 15, 2004

SUMMARY OF BILL: Imposes an equity assessment of 25 mills per cigarette (\$0.50 per pack) on non-participating manufacturers under the Tobacco Master Settlement Agreement. Such manufacturers would be required to pre-pay an amount equivalent to either: 1) the number of cigarettes that the Department of Revenue reasonably projects will be sold by the manufacturer in Tennessee in the first calendar month the provisions of this bill are in effect; or 2) \$50,000, whichever is more. Payments would be required on a monthly basis thereafter. The bill would provide for revocation of tobacco licensure and criminal penalties imposed by existing tobacco tax law in TCA 67-4-1016 and TCA 67-4-1024, for violations as provided in the bill.

ESTIMATED FISCAL IMPACT:

**Increase State Expenditures - \$85,000 One-Time
\$46,999 Recurring
\$5,000/Incarceration***

Increase State Revenues - \$15,038,204

Increase Local Govt. Revenues - \$337,305

Estimate assumes:

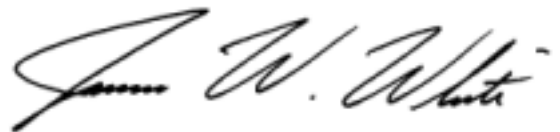
- One-time increases in state expenditures resulting from the bill are for systems, form modifications, and equipment costs for one new position required by the Department of Revenue.
- Recurring increases in state expenditures are for one new position within the Department of Revenue.
- 40,162,130 packs sold by non-participating manufacturers in Tennessee in FY02-03. This is based upon overall sales of 545,310,663 packs. The national average of non-participating manufacturer tobacco product sales was 6.5% in 2002 and 8.23% in 2003. The average of 7.365% was used in calculations for the purposes of this fiscal note.
- An elasticity of -1.25. The national average elasticity is -.4. However, due to the proximity of Tennessee to low tax tobacco states and the fact that this assessment will bring these lower priced brands closer to the price of the brands of participating manufacturers, the alternative elasticity rate was applied.

- One Class E felony conviction for year in association with the provisions of the bill.
- State government revenues are estimated to increase by \$14,054,395 due to the assessment on non-participating manufacturers.
- State sales tax collections would increase by \$983,807 as a result of the increased price of cigarettes due to the assessment and local government sales tax collections would increase by \$337,306.
- The impact of misdemeanor convictions depends upon the number of persons convicted of this offense and the resulting increased cost to local governments to confine such persons versus the increased revenues to local governments from fines levied and collected under the provisions of this bill.

**Section 9-4-210, TCA, requires that: For any law enacted after July 1, 1986, which results in a net increase in periods of imprisonment in state facilities, there shall be appropriated from recurring revenues the estimated operating cost of such law. The amount appropriated for operating cost, in current dollars, shall be based upon the highest cost of the next 10 years, beginning with the year the additional sentence to be served impacts the correctional facilities population.*

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "James W. White". The signature is fluid and cursive, with a large initial "J" and a stylized "W".

James W. White, Executive Director